

SERICA ENERGY PLC (AIM: SQZ)

December 05, 2024

Share price: £1.24

Target: £2.90

Compressor at Triton down for 2-4 weeks

- After resumption of production at the Triton FPSO last week, an issue with one of the compressor seals has been discovered which has resulted in production being suspended.
- These repairs are expected to take 2-4 weeks. We are now cautiously assuming that Triton will be offline until YE24.
- Issues at Triton's compressors have had a significant impact on production in 2024. With Triton and Bruce fully operational, production has exceeded 50 mboe/d. Current production is only 28 mboe/d.
- Addressing the Triton compressor issues is critical achieving a sustained high level of production. The second compressor at Triton continues to be expected to be repaired in 1Q25. This will provide critical redundancy and address the operational vulnerability at Triton.
- As a result of the shutdown at Triton, we now forecast FY24 production of 35.3 mboe/d with a YE24 net debt of ~US\$80-85 mm.
- We have made cautious assumptions for uptime at Triton next year.
- Triton production is only deferred rather than lost and we re-iterate our target price of £2.90 per share.

Valuation

Our Core (2P) NAV and ReNAV are broadly unchanged at £2.41 per share and £2.82 per share.

Rating & target	Old	New	
Target	£2.90	n.c.	
Yield		19%	
Implied total return		152%	
Share data	2023	2024e	2025e
Shares dil., mm	402	403	403
Mkt cap, US\$mm	\$1,166	\$642	\$649
EV, US\$mm	\$1,074	\$726	\$593
Financial Data	2023	2024e	2025e
Gas, mmcf/d	103.0	120.1	110.8
Liquids, bbl/d	20,318	14,590	22,258
Total boe/d (6:1)	40,121	35,293	41,369
CFO, US\$mm	\$98	\$261	\$480
Net capex, US\$mm	\$135	\$278	\$223
Net debt, US\$mm*	(\$92)	\$84	(\$56)
CFPS dil., US\$/shr	\$0.10	\$0.67	\$1.28
EPS dil., US\$/shr	\$0.38	(\$0.01)	\$0.61
Valuation	2023	2024e	2025e
Share price, £/shr	£2.32	£1.24	£1.24
EV/DACF	8.9x	2.5x	1.2x
EV per boe/d (US\$)	\$26,761	\$20,563	\$14,337
Net asset value			
CNAV, £/shr			£2.41
RENAV, £/shr			£2.82
Unrisked NAV, £/shr			£3.56
P/CNAV			0.5x
P/RENAV			0.4x
P/ENAV			0.3x

All figures in US\$ unless otherwise noted
* based on cash rather than working capital

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Figure 1. Financial & operating information

Serica Energy (SQZ LN)		Historical & Auctus Outlook					
Financial & Operating Information		2023	2024e	2025e	2026e	2027e	2028e
Commodity Prices							
Brent	US\$/bbl	\$82.99	\$79.90	\$74.99	\$70.00	\$70.00	\$70.00
UK NBP	p/th	GBp114	GBp84	GBp94	GBp90	GBp90	GBp90
UK NBP	US\$/mcf	\$14.26	\$10.83	\$12.18	\$11.70	\$11.70	\$11.70
USD / GBP	US\$/£	\$1.25	\$1.29	\$1.30	\$1.30	\$1.30	\$1.30
Production							
Oil and Liquids	bbl/d	20,318	14,590	22,258	23,366	20,449	16,933
Natural Gas	mmcf/d	103.0	120.1	110.8	124.0	139.0	123.7
Total (6 mcf = 1 boe)	boe/d	40,121	35,293	41,369	44,746	44,408	38,262
% Oil and Liquids	%	51%	41%	54%	52%	46%	44%
Netbacks							
Revenue	US\$/boe	\$61.46	\$61.87	\$68.86	\$64.61	\$63.86	\$63.59
Royalties	US\$/boe	\$0.63	\$0.80	\$0.67	\$0.62	\$0.50	\$0.43
Production & Transport Costs	US\$/boe	\$21.05	\$25.62	\$20.87	\$19.17	\$18.07	\$20.98
Operating Netback	US\$/boe	\$43.20	\$36.86	\$45.80	\$44.66	\$45.28	\$42.18
Taxes	US\$/boe	\$17.80	\$12.14	\$11.66	\$5.64	\$21.14	\$24.92
Cash Flow Netback	US\$/boe	\$9.45	\$22.17	\$33.25	\$35.84	\$27.81	\$15.67
Financials							
Cash Flow from Ops. before tax and							
fin. Costs (CFO)	US\$mm	\$469	\$440	\$661	\$705	\$710	\$565
CFO less current tax	US\$mm	\$240	\$284	\$484	\$613	\$367	\$217
CFO less cash tax and fin. Costs	US\$mm	\$98	\$261	\$480	\$563	\$429	\$197
CFPS - diluted	US\$/shr	\$0.10	\$0.67	\$1.28	\$1.49	\$1.15	\$0.56
EBITDAX	US\$mm	\$512	\$435	\$668	\$705	\$710	\$565
E&D Capex (incl. decom.)	US\$mm	\$78	\$268	\$223	\$273	\$36	\$0
A&D Capex, Net	US\$mm	\$57	\$10	\$0	\$0	\$0	\$0
Total Net Capex	US\$mm	\$135	\$278	\$223	\$273	\$36	\$0
Total Net Capex/CFO	x	1.4x	1.1x	0.5x	0.5x	0.1x	0.0x
Leverage							
Net Debt	US\$mm	(\$92)	\$84	(\$56)	(\$229)	(\$505)	(\$585)
Net debt/CFO (Trailing)	x	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Entry Net Debt/CFO	x	n.a.	n.a.	0.2x	n.a.	n.a.	n.a.
Capital Structure							
Basic Shares o/s @ YE	mm	391	392	392	392	392	392
Diluted Shares o/s @ YE	mm	402	403	403	403	403	403
Market Capitalization	US\$mm	\$1,166	\$642	\$649	\$649	\$649	\$649
Enterprise Value	US\$mm	\$1,074	\$726	\$593	\$420	\$144	\$64
Dividends & Sustainability							
Dividends	US\$mm	\$110	\$112	\$117	\$117	\$117	\$117
Dividends	£/sh	£0.23	£0.23	£0.23	£0.23	£0.23	£0.23
Dividends	\$/shr	\$0.29	\$0.30	\$0.30	\$0.30	\$0.30	\$0.30
Dividend Yield	%	18.5%	18.5%	18.5%	18.5%	18.5%	18.5%
Share Buybacks	US\$mm	\$0	\$19	\$0	\$0	\$0	\$0
Free Cash Flow	US\$mm	\$19	(\$7)	\$257	\$290	\$393	\$197
Cash returned to shareholders as % of	%	113.0%	50.2%	24.4%	20.8%	27.3%	59.5%
Cash invested/CFO	%	138%	107%	46%	48%	8%	0%
Performance							
Prod. Per Shr Growth (Y/Y) - dil.	%		-25%	17%	8%	-1%	-14%
PPS Growth (Y/Y) DDA - dil.	%		-47%	37%	49%	55%	11%
CFPS Growth (Y/Y) - dil.	%		594%	90%	17%	-23%	-51%
CFPS Growth (Y/Y) DDA - dil.	%		315%	122%	60%	20%	-37%
ROCE	%		-1%	30%	41%	39%	25%
Net Asset Value							
CNAV (Atax) - diluted	£/shr	£2.41					
RENAV (Atax) - diluted	£/shr	£2.82					
Unrisked NAV (Atax) - diluted	£/shr	£3.56					
P/CNAV	x	0.5x					
P/RENAV	x	0.4x					
P/Unrisked NAV	x	0.3x					
Valuation							
Share Price, YE/Current	£/shr	£2.32	£1.24	£1.24	£1.24	£1.24	£1.24
P/CF	x	29.9x	2.4x	1.3x	1.1x	1.4x	2.9x
EV/DACF	x	8.9x	2.5x	1.2x	0.7x	0.3x	0.3x
Target EV/DACF	x	42.4x	6.0x	2.9x	2.2x	2.2x	4.3x
EV per boe/d	\$/boepd	\$26,761	\$20,563	\$14,337	\$9,384	\$3,235	\$1,670
Proved Plus Probable		140	127	112	96	96	96
EV per 2P boe	US\$/boe	\$7.65	\$5.70	\$5.28	\$4.37	\$1.50	\$0.67
EV per 2P boe, with FDC	US\$/boe	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

a) EBITDAX = Pre-Int. & Pre-Tax Cash Flow; b) DDA = Debt-and-Dividend-Adjusted

c) CNAV incl. 2P reserves, RENAV incl. 2P reserves + Risked LT inventory upside, ENAV incl. 2P reserves + Unrisked LT inventory upside

Source: Auctus Advisors, Company Disclosures

**Futures strip as of 5-Dec-24

Figure 2. NAV Table

Asset Valuation	2P/2C/P50		Unrisked	EMV	Riskd	Unriskd	% Total
	(mmboe)	CoS (%)	(US\$ mm)	(US\$ mm)	£/Share	£/Share	
Net Cash (YE24)			-84	-84	-0.16	-0.16	-6%
Dividend 2024			112	112	0.22	0.22	8%
G&A			-81	-81	-0.16	-0.16	-6%
Bruce Hub 2P (NNS)	84		536	536	1.04	1.04	37%
Triton Hub 2P (CNS)	49		687	687	1.33	1.33	47%
Other assets							
Orlando 2P (NNS)	2		17	17	0.03	0.03	1%
Columbus 2P (CNS)	2		28	28	0.05	0.05	2%
Erskine 2P (CNS)	2		32	32	0.06	0.06	2%
Total Core NAV			1,247	1,247	2.41	2.41	86%
Buchan area (OMF)							
Buchan main 2C	21	60%	115	69	0.13	0.22	5%
J2 2C	4	35%	20	7	0.01	0.04	0%
Verbier 2C	7	35%	39	14	0.03	0.08	1%
Bruce Hub (NNS)							
Bruce field further infill (3 wells)	20	50%	113	56	0.11	0.22	4%
Kyle redevelopment 2C							
Kyle redevelopment 2C	10	50%	53	26	0.05	0.10	2%
Other assets							
Mansell redevelopment 2C	16	0%	84	0	0.00	0.16	0%
Skerryvore Exploration Mey target (Shallow)	10	14%	57	8	0.01	0.11	1%
Skerryvore Exploration Chalk target (Deep)	21	27%	114	31	0.06	0.22	2%
Total Risked Appraisal & Exploration			595	211	0.41	1.15	14%
Total NAV			1842	1458	2.82	3.56	100%
P/Core NAV				51%			
P/NAV				44%			
P/Unrisked NAV				35%			

Source: Auctus Advisors, Company Disclosures

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